

January 30, 2023

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 721 (Stephenson)

	Fund Impact			
	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
	(000's)			
General Fund	(\$75,500)	(\$76,800)	(\$79,600)	(\$82,300)

Effective beginning with tax year 2023.

EXPLANATION OF THE BILL

Current Law: The Minnesota working family credit is a refundable credit against the individual income tax. To qualify, the taxpayer (or spouse) must have income from wages or self-employment, and total earned income (or adjusted gross income, whichever is larger) cannot exceed a maximum amount.

Proposed Law: The bill is to increase the working family credit as shown in the following tables.

Working Family Credit Rates

	Credit Rate		Phase-Out Rate	
	Current	Proposed	Current	Proposed
No children	3.9%	9.0%	2.0%	3.5%
One child	9.35%	12.5%	6.0%	7.25%
Two children	11.0%	14.0%	10.5%	10.75%
Three or more children	12.5%	15.0%	10.5%	11.5%

Working Family Credit: Tax Year 2023

	Maximum Earned Income		Maximum Credit	
	Current	Proposed	Current	Proposed
No children	8,110	7,000	316	630
One child	13,550	12,500	1,267	1,563
Two children	22,220	19,000	2,444	2,660
Three or more children	22,670	20,000	2,834	3,000

EXPLANATION OF THE BILL (Cont.)

Working Family Credit Phase-Out Thresholds: Tax Year 2023

	Phase-out Threshold (All but MJ)		Phase-Out Threshold (MJ)	
	Current	Proposed	Current	Proposed
No children	9,900	17,000	16,520	25,000
One child	25,810	25,810	32,430	33,810
Two children	30,610	31,000	37,230	39,000
Three or more children	30,950	35,000	37,570	43,000

The maximum earned income and phase-out thresholds will be indexed for inflation beginning in tax year 2024.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation (HITS 7.2) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in November 2022. The model uses a stratified sample of 2019 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts are allocated to the following fiscal year.

Number of Taxpayers:

The number of returns receiving the credit would increase from 395,000 to 404,000 in tax year 2023. About 301,300 tax returns would have an average change in tax of about \$250.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
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